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in the State of Missouri**

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February 12, 2013

Dr. Stacey Preis  
Executive Director  
Joint Committee on Education  
201 West Capitol Avenue  
Room 434-B  
Jefferson City, MO 65101

Dear Dr. Preis:

The members of the Council on Public Higher Education (COPHE) thank you for taking time to visit with them last week. The summary you and Trevor Foley provided was very helpful, as were your responses to the questions. We appreciate the very productive discussion.

In response to the invitation from you, Senator David Pearce and Representative Mike Thomson, COPHE is providing this letter with some additional suggestions regarding the second draft of the funding formula for higher education. The letter is divided into three sections:

- The continuing major concern of reallocating base funding
- Specific recommendations to improve the second draft of the formula
- Other related issues

We hope this input is helpful. Please note that individual institutions may also submit letters. Thank you for your consideration.

Sincerely,

Members of COPHE

*All Presidents and Chancellors listed on this letterhead directed that their names be included as co-authors of this letter.*



Submitted by Paul Kincaid  
Interim Executive Director  
COPHE  
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xc: Sen. Pearce, Rep. Thomson, COPHE Members, MDHE

**Reallocation of Base Funding**

COPHE reiterates its major concern about the funding formula: Putting shrinking and under-funded bases at-risk and, through the formula, reallocating the base. COPHE respectfully requests that the Joint Committee on Education reconsider this approach and only apply any higher education formula to new funding.

There are many reasons for this request, many of which have been outlined before. Here are three worth mentioning again:

- Current Under-Funding – a week ago, the Joint Committee on Education released a report indicating that Missouri’s system of public higher education was under-funded by some \$388 million. Given that, it seems counter-productive to entertain the idea of reducing/reallocating that core even further.
- Premise for Performance Funding – as has been stated before, the current performance funding plan was developed based on the premise that it would be applied to new funding. Had it been clear that performance funding was going to impact core funding, the approach might have been very different. For example, institutions would have been less likely to identify “stretch goals”; there would have been more discussion about having 12-15 performance measures as many states have done instead of five; and the unanimous support the recommended plan enjoyed would most probably have been splintered.
- Basis for Formula – the discussion of equity funding during the 2012 session of the Missouri General Assembly has been cited repeatedly as the basis for the new formula. Last year’s discussion, however, was not based on reallocation of core funding to address equity. Rather, it appeared to be a distribution of an additional \$3 million to help address some equity issues. To be consistent with that decision, the new formula should allocate new funding, not core, in order to address equity issues.

## **Recommendations to improve second draft of the formula**

- Weighted Mean vs. Median – we recommend using a “weighted mean,” rather than a “median” when looking at peer data. Using the median with the wide range of different institutions in the peer groups can lead to misleading information. For example, the best way to accurately reflect the average cost of Student Services would be to sum the sector’s total Student Services expenditures, sum the total headcounts, and then compute an average for the whole sector. This would affect the following factors:
  - Standardized Rate per Credit hour for Costs of Instruction
  - Standardized Rate per Headcount for Costs of Public Service
  - Standardized Rate per Costs of Student Services

- Annual Headcount vs. Fall Headcount – it appears that when headcount is used to determine the peer average costs (Public Service and Student Services), annual headcounts are used. But, when computing our target amounts based on these annual per student costs, our Fall headcounts are being used. We believe for consistency, annual headcount be used for both peers and for determining our target amounts.
- Three-Year Rolling Averages – we applaud the recommendation to use a three-year average in order to dampen sudden enrollment or financial changes. As you are aware, subtle changes have occurred in both the IPEDS Finance and 12-Month Enrollment surveys beginning with Fiscal Year 2009. However, NCES has made available national data for Fiscal Year 2010 and Fiscal Year 2011. Until Fiscal Year 2012 data are available, we suggest using a two-year average (FY 2010-FY 2011) to ensure consistent data are used over time. In subsequent years, we think using a three-year average would be appropriate.
- Pell Computation – NCES provides a computed “percent of undergraduates receiving Pell grants.” We recommend that the NCES number be used as it is readily available and compares Pell recipients in the Fall with the Fall undergraduate population. This is appropriate since graduate students are not eligible for Pell.
- Double-Check Pell Students – several COPHE institutions indicate that the number and/or percentage of Pell students listed for them are inaccurate. Therefore, we respectfully request that these calculations be double-checked and confirmed with the individual institutions. It is important that the model accurately represent the number and level of expenditures of the Pell Eligible students COPHE institutions serve.
- Quality Output Indicators – the model as developed is driven by three factors: cost to do business, enrollment, and performance. There is no factor that focuses on quality of output. The extent to which our graduates acquire the knowledge, skills and abilities to be productive citizens after graduation is in the end what really matters. We are concerned that we might not be incentivizing the most important goals. We understand this is an input-driven model, but note that the rest of the country has moved towards output-based models and we are concerned with a possible erosion of quality and ever-increasing focus on enrollment only. There might be an opportunity to partner with Lumina in such a pursuit.
- Benchmark State Funding – using the benchmark State funding level as the peer median level of percent of total expenditures when the peers are other poorly funded states does not seem ideal. At the very least, it seems like the comparison should be the median of the peers or the existing percent for the institution, whichever is higher.
- Peer Groups – it would be helpful to clarify the peer groups to alleviate any concerns regarding the selection of states and the parameters for selecting peers, etc., since the peer groups used are not consistent with peers used by IPEDS and other national data gathering

organizations. Further, it remains unclear why only the 10 surrounding states are considered peers.

- Adjustment to the Instructional Matrix for the Medical Schools – the inclusion and weighting of the first-professional programs in Medicine and Veterinary Medicine and Dentistry at the University of Missouri campuses needs to be addressed. This should be accomplished in a fair and appropriate way that is consistent with peer institutions/states. Specifically, the University of Missouri has recommended that the weighting be set at 19.5, rather than the current 10.02. These programs were not in the original matrix developed by COPHE. The University of Missouri suggests that this weighting more accurately represents the higher costs and clinical nature of these programs. This higher weighting is also more in line with what other states are using in their formula, such as such as Texas (<http://www.thecb.state.tx.us/reports/Docfetch.cfm?Docid=2291&Format=XLS>) and Alabama (<http://www.ache.alabama.gov/CBR2012/Index.pdf>).

## **Other Related Issues**

- State Financial Aid Programs – given the emphasis this formula places on Pell-eligible students, it might be worthwhile to renew the evaluation of the State’s financial aid programs to ensure they are structured to provide access to the neediest students. COPHE stands ready to participate in such a discussion.
- Comprehensive Review of Higher Education Funding – if the goal is to have a full discussion of higher education funding, perhaps it would be appropriate to take a fresh look at the tuition limitations mandated under Senate Bill 389. This bill prohibits institutions with tuition above the average from increases greater than the percentage change in the consumer price index; allows four-year institutions whose tuition is less than the average to increase tuition by the percent change in consumer price index, times the average tuition; and places no limits on community college tuition. Institutions and their governing boards are cognizant of the importance of student access and affordability, and the need to balance that against the resources needed to achieve and maintain quality.
- Funding Formula – COPHE remains available to provide input into a formula that can be used to achieve the ultimate outcome identified by the Joint Committee on Education report. Once the Joint Committee report has been completed and accepted, we would welcome the opportunity to assist with this process. We reiterate our recommendation that the formula not be incorporated into state statute in order to preserve flexibility as resources available to fund higher education shift over time as do the state’s and institutions’ needs.